

Message Text

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PAGE 01 BONN 15378 01 OF 03 232008Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 L-03 H-02 /122 W
-----088894 232101Z /12

R 231935Z AUG 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 1300
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 15378

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(AUGUST 15-22)

REF: BONN 14847

1. SUBJECTS COVERED:

FOREIGN EXCHANGE MARKETS (TABLE);
GERMAN EXPORT TO U.S. AT RECORD LEVEL; MONEY MARKET
(TABLE); BUNDESBANK FOREIGN POSITION; BANK LIQUIDITY;
\$500 MILLION CREDIT FOR SOVIET BANK; BOND MARKET (TABLE);
FOREIGN DM BONDS; ECONOMIC INDICATORS PUBLISHED THIS
WEEK (TABLE).

2. FOREIGN EXCHANGE MARKETS: UNCLASSIFIED

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PAGE 02 BONN 15378 01 OF 03 232008Z

THE DOLLAR RALLIED DURING THE WEEK UNDER REVIEW; PEAKING
ON MONDAY AT \$1 EQUALS DM 2.0180 AT THE FIXING, BEFORE
FALLING OFF AGAIN ON TUESDAY. VERY LITTLE OFFICIAL
COMMENT ON THE UNSETTLED CONDITIONS ON FOREIGN EXCHANGE

MARKETS IN THE RECENT PAST WAS HEARD THIS WEEK. THE

PRESS AND BANKING AND INDUSTRY SPOKESMEN WERE SOMEWHAT MORE VOCAL; CALLING ON THE U.S. TO TAKE MORE VIGOROUS ACTIONS IN DEFENSE OF ITS CURRENCY AND TO FIND SOLUTIONS TO THOSE FACTORS, E.G. INFLATION AND THE ENERGY PROGRAM, WHICH IN THEIR VIEW ARE BURDENING THE DOLLAR. FOR THE PERIOD UNDER REVIEW, FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS	FORWARD DOLLARS			
	(IN DM PER \$1.00)	(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH

AUG 15	1.9165	1.9290	1.9445	-5.6	-5.4
AUG 16	1.9400	1.9484	1.9375	-4.9	-5.3
AUG 17	1.9650	1.9773	1.9920	-5.5	-5.3
AUG 18	1.9700	1.9650	1.9855	-5.8	-5.6
AUG 21	2.0025	2.0180	2.0098	-5.8	-5.5
AUG 22	1.9975	1.9945	N.A.	N.A.	M.A.

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PAGE 01 BONN 15378 02 OF 03 232050Z
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L-03 H-02 PA-02 /122 W
-----089407 232102Z /12

R 231935Z AUG 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 1301
DEPARTMENT TREASURY
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UNCLAS SECTION 02 OF 03 BONN 15378

3. \$500 MILLION CREDIT FOR SOVIET BANK:
THE INTERNATIONAL INVESTMENT BANK, MOSCOW, IS
BORROWING \$ 500 MILLION ON EUROMARKETS THROUGH CON-

SORTIUM LED BY THE DRESDNER BANK. ACCORDING TO THE DRESDNER THE MATURITY OF THE CREDIT IS 10 YEARS WITH REPAYMENT TO BEGIN AFTER 5 1/2 YEARS. FOR THE FIRST 30 MONTHS THE COUPON IS 5/8 PERCENT ABOVE LIBOR AND FOR THE RAMAINING MATURITY 3/4 PERCENT ABOVE LIBOR.

4. GERMAN EXPORTS TO U.S. AT RECORD LEVEL:

IN THE 1ST HALF OF 1978, THE VALUE OF GERMAN EXPORTS TO THE U.S. ROSE TO DM 9.8 BILLION; 17.0 PERCENT ABOVE LAST YEAR'S LEVEL. TOTAL GERMAN EXPORTS INCREASED IN VALUE - BY 3.5 PERCENT DURING THIS PERIOD. THE FEDERAL STATISTICAL OFFICE REPORTS THAT THE INCREASE UNCLASSIFIED

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PAGE 02 BONN 15378 02 OF 03 232050Z

MOST BENEFITED THE ELECTRONIC, OPTICAL, PRECISION MACHINERY AND STEEL AND METAL INDUSTRIES. EXPORTS TO THE U.S. OF MACHINERY ROSE 27.0 PERCENT AND STEEL DELIVERIES INCREASED 72.0 PERCENT.

5. MONEY MARKET:

MONEY MARKET RATES MOVED UPWARD SLIGHTLY DURING THE REPORTING PERIOD. CALL MONEY RATES INCREASED TO SLIGHTLY ABOVE THE BUNDESBANK'S 3.0 PERCENT REDISCOUNT RATE FOR THE FIRST TIME IN TWO WEEKS. ONE AND THREE MONTH RATES ALSO WERE MARGINALLY HIGHER. FOR THE PERIOD UNDER REVIEW, FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
	-----	-----	-----
AUG 15	2.90-3.00	3.45	3.65
AUG 16	2.90-3.00	3.45	3.65
AUG 17	3.00-3.10	3.45	3.65
AUG 18	3.00-3.10	3.45	3.65
AUG 21	3.10-3.20	3.50	3.70

6. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD AUGUST 8-15 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM1.8 BILLION TO DM 90.3 BILLION REFLECTING DOLLAR INTERVENTIONS AND INTERVENTIONS WITHIN THE SNAKE BY THE BUNDESBANK. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 1,515 MILLION, CLAIMS AGAINST THE EUROPEAN FUND FOR MONETARY COOPERATION BY DM 403 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 68 MILLION, SDR HOLDINGS BY DM 43 MILLION, CREDITS TO MONETARY AUTHORITIES BY UNCLASSIFIED

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PAGE 03 BONN 15378 02 OF 03 232050Z

DM 26 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 20 MILLION.

7. BANK LIQUIDITY:
DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 1.2 BILLION. FACTORS INCREASING LIQUIDITY WERE THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION AND DECLINES OF DM 1.2 BILLION AND DM 1.3 BILLION, RESPECTIVELY, IN CURRENCY IN CIRCULATION AND IN BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER, UNIDENTIFIED FACTORS INCREASED LIQUIDITY BY DM 3.0 BILLION, NET. THE ONLY MAJOR FACTOR REDUCING LIQUIDITY WAS A DM 6.1 BILLION INCREASE IN FEDERAL AND STATE GOVERNMENT ASSETS HELD AT THE BUNDESBANK REFLECTING FIRST PAYMENTS FOR THE MID-AUGUST TAX DATE AND BORROWINGS BY THE FEDERAL GOVERNMENT.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 1.2 BILLION.

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PAGE 01 BONN 15378 03 OF 03 232050Z
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UNCLAS SECTION 03 OF 03 BONN 15378

8. BOND MARKET:

THE RECENT RALLY ON THE GERMAN BOND MARKET (SEE BONN 14847) WAS RATHER SHORT-LIVED. MAINLY DUE TO PROFIT TAKING PRICE INCREASES CAME TO A HALT AND ULTIMATELY SOME PRICE DECLINES OCCURRED. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY DEVELOPED AS FOLLOWS:

RAMAINING MATURITY

(YEARS)	1	3	5	7	9	10
AUGUST 18	4.45	5.95	6.40	6.65	6.85	6.90
AUGUST 11	4.45	6.05	6.55	6.65	6.90	6.95

9. FOREIGN DM BONDS.

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PAGE 02 BONN 15378 03 OF 03 232050Z

THE DM 65 MILLION LOAN OF THE DUTCH UDS GROUP WILL BE OFFERED AT A COUPON OF 5 3/4 PERCENT, AN ISSUE PRICE OF 99 1/4 AND A MATURITY OF 5 YEARS. SIMILAR CONDITIONS (5 3/4 PERCENT, 99 1/2, 5 YEARS) WERE CARRIED BY PRIVATELY PLACED BONDS OF DM 100 MILLION OF THE FRENCH CREDIT NATIONAL. THE BONDS WERE GUARANTEED BY THE FRENCH GOVERNMENT.

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED BUNDESBANK DATA

	APRIL	MAY	JUNE	JULY
	----	----	----	----

RETAIL SALES VOLUME

(1970 EQUALS 100)	124	122	124	--
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VOLUME OF TRADE

(DM BILLIONS)

EXPORTS	17.77	16.65	17.89	--
IMPORTS	15.98	15.12	15.64	--

VOLUME OF ORDERS FOR

CONSTRUCTION OF

HOUSING UNITS

(1971 EQUALS 100)	92	94	--	--
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LIVING COSTS

(1970 EQUALS 100)	149.5	149.8	150.0	150.6
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INDUSTRIAL PRODUCER

PRICES

(1970 EQUALS 100) 145.1 145.6 146.1 146.4

AGRICULTURAL PRODUCER

PRICES

(1970 EQUALS 100) 137.5 137.9 136.8 --

INDUSTRIAL WAGES

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PAGE 03 BONN 15378 03 OF 03 232050Z

PER EMPLOYEE

(1970 EQUALS 100) 200 202 -- --

UNEMPLOYMENT AS

PERCENT OF

LABOR FORCE 4.4 4.4 4.4 4.4

INDUSTRIAL PRODUCTION,

EXCLUDING

CONSTRUCTION

(1970 EQUALS 100) 116 115 116 --

NON-SEASONALLY ADJUSTED DATA

APRIL MAY JUNE JULY

IMPORT PRICES 1/, 2/ -7.6 -6.4 -5.5 -6.4

EXPORT PRICES 1/, 2/ 0.4 0.8 1.1 1.3

1/ PERCENT CHANGE FROM PREVIOUS

YEAR'S LEVEL.

2/ CALCULATED ON THE BASIS OF INDICES

REFLECTING THE DEVELOPMENT OF PRICES

FOR A GIVEN (1970) BASKET OF GOODS.

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